LEGACY HOTELS

Real Estate Investment Trust

2003 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31	2003	2002	2001
Revenue per available room[1]	$ 105.88	–	–
COMPARABLE PORTFOLIO[2]			
Revenue per available room	$ 99.47	$ 112.84	$ 107.97
Average daily rate	$ 158.01	$ 164.26	$ 160.41
Occupancy	63.0%	68.7%	67.3%
IN MILLIONS OF DOLLARS, EXCEPT PER UNIT AMOUNTS			
Operating revenues	$ 663.9	$ 647.6	$ 606.8
Hotel EBITDA[3]	114.6	146.0	140.2
Net income (loss)	(8.4)	55.1	53.7
Distributable income (loss)[4]	(2.0)	50.9	63.9
Basic and diluted net income (loss) per unit	(0.21)	0.50	0.66
Basic and diluted distributable income (loss) per unit	(0.02)	0.57	0.77
Distributions per unit	0.185	0.74	0.87

1) Based on hotel portfolio as at December 31, 2003.
2) Comparable hotels are considered to be properties that were owned by Legacy for at least the entire current and prior periods. See page 9 for listing of properties excluded from comparable portfolio.
3) Hotel EBITDA is a non-GAAP (Generally Accepted Accounting Principles) measure and does not have a standardized meaning prescribed by GAAP. It is unlikely to be comparable to similar measures presented by other entities. Hotel EBITDA is defined as income before interest, taxes, amortization, advisory fees and other income and expenses. Management considers hotel EBITDA to be a meaningful indicator of operations and is a primary measure used to assess operating performance.
4) Distributable income (loss) is a non-GAAP measure and does not have a standardized meaning prescribed by GAAP. It is unlikely to be comparable to similar measures presented by other entities. Distributable income (loss) is calculated as net income before amortization, income taxes and special charges less the capital replacement reserve. This amount, determined in accordance with the Declaration of Trust, is intended to approximate Legacy's taxable income and forms the basis of distributions to unitholders. Special charges and the capital replacement reserve are determined at the discretion of the Board of Trustees.

CORPORATE OVERVIEW

Legacy was created in 1997 with the purchase of 11 Canadian city-centre hotels with approximately 5,500 guestrooms. Over the past six years, the portfolio has more than doubled to include 24 luxury and first-class hotels and resorts with over 10,700 guestrooms. Legacy is geographically diversified with a presence in all major Canadian markets and two U.S. markets, Washington, D.C. and Seattle. The Trust's portfolio includes landmark properties such as Fairmont Le Château Frontenac, The Fairmont Royal York, The Fairmont Empress and The Fairmont Olympic Hotel, Seattle. Two leading hotel companies manage Legacy's hotel portfolio: Fairmont Hotels & Resorts, one of North America's largest luxury hotel management company; and Delta Hotels, Canada's largest first-class hotel management company.

Cover shots (from top left):
Fairmont Le Château Frontenac, Quebec City, Quebec
Fairmont The Queen Elizabeth, Montreal, Quebec
The Fairmont Empress, Victoria, British Columbia
Fairmont Château Laurier, Ottawa, Ontario

The Fairmont Empress, Victoria, British Columbia

CHALLENGES AND OPPORTUNITIES

- The combined shock of SARS and the war in Iraq created a sharp decline in lodging demand in 2003, impacting Legacy particularly hard.
- By late 2003, demand for lodging was recovering and new hotel supply growth in Legacy's markets remained restrained.
- Given the quality and location of our assets, Legacy is ideally positioned to capture demand growth.
- The priority in 2004 is to restore the performance of the portfolio with a goal of resuming distributions.

The Fairmont Olympic Hotel, Seattle, Washington

The Fairmont Washington, D.C., Washington, District of Columbia

LETTER TO UNITHOLDERS

As we entered 2003, we expected it would be a year of solid operating performance and good growth. We knew there might be disruption if the United States took military action against Iraq and we were aware that more terrorist threats were possible. We could not have anticipated that the biggest problem faced in 2003 would come from a new virus, severe acute respiratory syndrome – SARS.

The problem arose without warning. A Canadian visiting Hong Kong for a wedding spent a few minutes in an elevator with a SARS carrier before returning to Toronto. SARS would hit the city twice; in March and again in May; eventually infecting over 250 people. Although SARS was confined mostly to a few Toronto hospitals, the impact on the Canadian lodging industry was unexpectedly swift and damaging.

Industry experts estimate the decline in tourism expenditures in the six large Canadian cities tracked exceeded $880 million in the six months following the outbreak of the virus. Within the Toronto market, hotel bookings by American visitors dropped by 40% and nearly 25% of all conventions were cancelled.

Legacy was also affected by the reluctance of many Americans to travel outside the U.S. during the tensions leading up to the war in Iraq and the war itself.

THE IMPACT ON LEGACY

The combined shocks from SARS and the Iraq war created a sharp and unexpected decline in demand for lodging across Canada and hit Legacy particularly hard. The Toronto market was especially impacted by SARS. With three hotels in the city, including the 1,365-room Fairmont Royal York, Toronto is a critical market for us. Our portfolio also attracts more international guests and group business than our peers due to the historic renown of our hotels and their extensive meeting and conference facilities – the two segments of the Canadian market that declined the most during this difficult year.

Revenues for the portfolio increased to $663.9 million, with two newly acquired properties, The Fairmont Washington, D.C. and The Fairmont Olympic Hotel, Seattle, contributing $89.3 million. However, revenue per available room or RevPAR for the comparable portfolio decreased 11.8% in 2003, with occupancy declining 5.7 points and the average daily rate or ADR down 3.8%. The impact of SARS was most damaging during the critical second and third quarters when we typically earn more than 70% of our hotel EBITDA given the high leisure and tour demand. As a result, hotel EBITDA declined by 21.5%.

The Fairmont Royal York, Toronto, Ontario

"Demand for lodging is recovering and we are well positioned to capture an expanding share of that demand. Legacy has the best portfolio of city-centre heritage hotels in Canada and our recent expansion into the U.S. will allow us to capitalize on the rebound in U.S. travel demand."

Legacy declared a quarterly distribution of $0.185 per unit in early March, prior to the discovery of SARS in Canada. The severity and speed with which SARS affected our operations and our inability to predict the full impact of the virus caused us to suspend distributions in the second quarter. Although this was a difficult decision, our Board of Trustees felt it was prudent to conserve our financial resources until we had a better view of the full impact of SARS.

LOOKING AHEAD

With the problems of 2003 now behind us, we are again confident that Legacy can deliver on its two core objectives:

1. To provide stable distributions. Prior to the impact of SARS, Legacy had consistently paid steady distributions. We expect to resume distributions as soon as operating performance permits; and
2. To provide an appropriate risk-adjusted rate of return to unitholders. We will accomplish this through improved operating returns from our existing portfolio, growth and diversification in our portfolio and the long-term appreciation of our assets.

Our confidence in 2004 is driven by the following:

- Demand for lodging is recovering and we are well positioned to capture an expanding share of that demand. Legacy has the best portfolio of city-centre heritage hotels in Canada and our recent expansion into the U.S. will also allow us to capitalize on the rebound in U.S. travel demand.
- We have invested in our existing portfolio, improving the physical product and amenities offered to our guests. These investments are expected to begin generating meaningful cash returns in this improving environment, while enhancing our properties and improving our guests' experience.
- We have reduced our operating costs since September 11, 2001 in response to the softening demand that the events of that terrible day precipitated. This operating efficiency will enable us to capture significant incremental growth from the anticipated rebound in travel demand.
- New hotel supply in Legacy's markets remains low. Despite some development in our markets over the past few years, the current restraint in supply growth will accelerate a recovery in both ADR and RevPAR.

Fairmont The Queen Elizabeth, Montreal, Quebec

The Fairmont Hotel Macdonald, Edmonton, Alberta

LEGACY'S STRATEGIC PLAN

To ensure that Legacy will be in a solid position to profit from these drivers, we refinanced our portfolio at the end of 2003. Our ability to secure refinancing proceeds of $335 million in this difficult environment is a testament to the quality of our assets, our hotel managers' operating expertise and the strength of our brands. The refinancing also extended the term of our debt, significantly lowered the risk profile of our capital structure and improved our access to capital.

Together with our hotel managers and brands, we continue to strive to maximize the revenues and financial profitability of our portfolio. We are encouraged by the pace of group bookings at our hotels going into 2004 and by early indications that tour operators might also enjoy a revival in demand in the coming year.

Our priority in 2004 is to restore the performance of Legacy's portfolio to its traditional levels with a goal of resuming distributions. Once achieved, we will continue to pursue our strategy of reducing risk through selective growth. We have steadily aquired properties since 1997, adding stable, quality assets to our portfolio and further diversifying earnings. We feel this strategy not only reduces risk, it builds long-term value.

STRONG GROWTH PROSPECTS

Travel and tourism is one of the world's largest industries. Solid growth prospects will continue over the next 10 years as baby boomers approach their peak spending capacity and leisure years. These travellers prefer to stay at hotels that have established reputations, favouring brands that they know and trust.

In the near-term, the Canadian industry should see substantial improvement as we leave the challenges of SARS behind us. In addition, lodging fundamentals are expected to continue strengthening as the economy improves. Increasing demand should result in meaningful growth in RevPAR and earnings. Traditionally, when the lodging industry is growing, Legacy has enjoyed higher RevPAR growth than its peers.

Exemplary service makes travellers choose our hotels. The hard work and commitment of our employees are invaluable contributions to our performance and this has never been more evident than during the past year.

I would like to thank our employees, the members of our Board of Trustees and our unitholders for their continued commitment to Legacy during this difficult year.

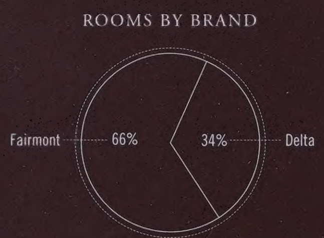
We are confident that 2004 will prove that our business is sound and that our strategies will drive unitholder value. We look forward to the opportunities that 2004 will bring.

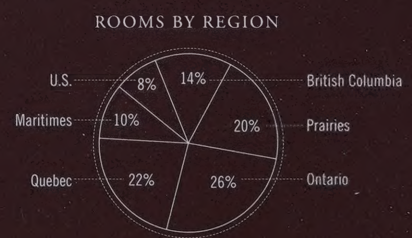
NEIL J. LABATTE
President and Chief Executive Officer
January 27, 2004

The Fairmont Royal York, Toronto, Ontario

HOTEL PORTFOLIO

Our hotel portfolio's geographical diversity has historically provided relative stability to operating performance by limiting our reliance on any one market.





Two leading hotel companies manage our hotel portfolio: Fairmont and Delta. Each brand has a different market position and caters to a different clientele. Given its luxury positioning and ancillary services, our Fairmont portfolio generates higher revenues per room. As a result, our Fairmont hotels contribute approximately 75% of our total revenues.

HOTEL PORTFOLIO

	REVPAR (1)		Rooms
	2003	2002	
1 The Fairmont Empress, Victoria			477
2 The Fairmont Hotel Vancouver, Vancouver			556
3 The Fairmont Waterfront, Vancouver			489
BRITISH COLUMBIA—FAIRMONT	$ 123.19	$ 135.00	1,522
4 The Fairmont Palliser, Calgary			405
5 Delta Calgary Airport, Calgary			296
6 Sheraton Suites Calgary Eau Claire, Calgary			323
7 The Fairmont Hotel Macdonald, Edmonton			198
8 Delta Bessborough, Saskatoon			225
9 The Fairmont Winnipeg, Winnipeg			340
10 Delta Winnipeg, Winnipeg			392
ALBERTA, SASKATCHEWAN AND MANITOBA—FAIRMONT	$ 91.28	$ 94.97	1,266
ALBERTA, SASKATCHEWAN AND MANITOBA—DELTA	$ 73.77	$ 76.77	913
11 Delta Toronto Airport West, Mississauga			297
12 Delta Toronto East, Toronto			368
13 The Fairmont Royal York , Toronto			1,365
14 Fairmont Château Laurier, Ottawa			430
15 Delta Ottawa Hotel and Suites, Ottawa			328
16 Fairmont The Queen Elizabeth, Montreal			1,039
17 Delta Centre-Ville, Montreal			711
18 Fairmont Le Château Frontenac, Quebec City			621
ONTARIO AND QUEBEC—FAIRMONT	$ 109.53	$ 134.81	3,455
ONTARIO AND QUEBEC— DELTA	$ 83.64	$ 93.84	1,704
19 Delta Beauséjour, Moncton			310
20 Delta Halifax, Halifax			296
21 Delta Barrington, Halifax			200
22 Delta Prince Edward, Charlottetown			211
ATLANTIC CANADA—DELTA	$ 87.02	$ 85.67	1,017
23 The Fairmont Washington, D.C., Washington			415
24 The Fairmont Olympic Hotel, Seattle			450
UNITED STATES OF AMERICA—FAIRMONT	–	–	865
TOTAL – FAIRMONT	$ 110.13	$ 128.52	7,108
TOTAL – DELTA	$ 82.11	$ 87.26	3,634
TOTAL COMPARABLE PORTFOLIO	**$ 99.47**	**$ 112.84**	**10,742**

1) Revenue per available room ("RevPAR") is based on properties owned by Legacy for at least the entire current and prior periods.
Exclusions: Sheraton Suites Calgary Eau Claire; The Fairmont Washington, D.C.; The Fairmont Olympic Hotel, Seattle

GOVERNANCE PRACTICES

Legacy's Board of Trustees is made up of experienced business professionals from various industries, each offering unique perspectives and insights. Our Board comprises seven Trustees, five of whom are independent, including the Chairman.

The Board fulfills its responsibilities by supervising the management of the Trust's business, its organization structure and the performance and compensation of senior management. The Board oversees the development of Legacy's strategic direction and regularly reviews management's implementation of strategies, budgets and business plans.

The Board fulfills its responsibilities directly and through the work of the following four committees.

AUDIT COMMITTEE

Ensures Legacy's compliance with legal and regulatory requirements as well as the integrity of financial reporting, internal controls and policies and the Trust's external auditors. This committee is comprised only of independent Trustees.

COMPENSATION, COMPLIANCE AND COVERNANCE COMMITTEE

Establishes and monitors the Board's governance practices and procedures including responsibility for the Board's approach to governance issues. As part of its responsibilities, the committee assesses the effectiveness of the Board, its committees and individual Trustees.

NOMINATING COMMITTEE

Assesses the current Board composition and is responsible for identifying and recommending candidates for election to the Board.

INVESTMENT COMMITTEE

Available to review the Trust's investment proposals, including acquisitions and dispositions. Notwithstanding the appointment of this committee, the full Board may approve any matter which the Investment Committee has the authority to consider and approve.

BOARD OF TRUSTEES

BRYCE W. DOUGLAS [1, 3]
Mr. Douglas, a corporate director, was Deputy Chairman of RBC Dominion Securities Inc. for over five years until he retired in 2002. He has been a Trustee of Legacy since 1997.

RICHARD A. GOLDSTEIN, CHAIRMAN [2, 3, 4]
Mr. Goldstein has been Chairman and Chief Executive Officer of International Flavors & Fragrances, Inc., since 2000. He has been a Trustee of Legacy since 1998.

BRIAN F. MACNEILL [1, 3]
Mr. MacNeill, a corporate director, has been Chairman of Petro-Canada Inc. since 2001. He has been a Trustee of Legacy since 2001.

JOHN J. O'CONNOR [1, 2, 4]
Mr. O'Connor has been a senior partner of Ogilvy Renault for over five years. He has been a Trustee of Legacy since 1997.

C. WESLEY M. SCOTT
Mr. Scott, a corporate director, was Chief Corporate Officer at BCE Inc. until 2001. He has been a Trustee of Legacy since 2003.

WILLIAM R. FATT, VICE CHAIRMAN [2, 3, 4]
Mr. Fatt has been Chief Executive Officer of Fairmont Hotels & Resorts Inc. since 2001. He has been a Trustee of Legacy since 1997.

NEIL J. LABATTE [3]
Mr. Labatte has been President of the Trust since 1999 and Chief Executive Officer since 2003. He has been a Trustee of Legacy since 2003.

Board of Trustee Committees
1) Audit Committee 2) Compensation, Compliance and Governance Committee 3) Investment Committee 4) Nominating Committee

2003 was undoubtedly one of the most difficult years in the Canadian hotel industry. We remain committed to improving our performance in 2004 and resuming distributions for our unitholders.

Management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes, which begin on page 28. The consolidated financial statements of Legacy Hotels Real Estate Investment Trust ("Legacy" or the "Trust") are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements and MD&A are presented in Canadian dollars unless otherwise stated.

Additional information relating to the Trust, including our Annual Information Form, can be found on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") located at www.sedar.com.

Legacy uses non-GAAP financial measures to assess its operating performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. A discussion of non-GAAP financial measures used by the Trust, including a reconciliation to GAAP financial measures can be found beginning on page 24.

INTRODUCTION

We are the dominant owner of luxury and first-class city-centre hotels in Canada. We believe we own the best assets in many of the markets in which we operate including landmark properties such as Fairmont Le Château Frontenac, The Fairmont Royal York, The Fairmont Empress and The Fairmont Olympic Hotel, Seattle.

Legacy was created in 1997 with the purchase of 11 Canadian city-centre hotels with approximately 5,500 guestrooms. Over the past six years, our portfolio has more than doubled to include 24 luxury and first-class hotels and resorts with over 10,700 guestrooms. This growth has diversified our presence from nine Canadian city-centres to 14 Canadian and two U.S. markets.

KEY INDUSTRY DRIVERS

Supply

In normal operating environments, it is new supply, not reductions in travel demand, that cause the greatest cyclical weakness for hotel operations. Additional hotel supply tends to dilute occupancies within a market until the demand rise compensates for the increased rooms inventory.

Demand

The lodging industry is driven by two primary demand segments: business and leisure travel. Each segment is influenced by various macroeconomic factors including the general state of the economy given its influence on both business and consumer confidence. Another factor would include the health of the stock market, which impacts personal and corporate wealth. Such wealth is important for discretionary spending items such as travel. We also expect demographic shifts to influence travel patterns as baby boomers approach their peak spending and leisure years. The past few years have also highlighted that geopolitical events can have a profound impact on demand.

2003 MARKET OVERVIEW

Unprecedented demand shocks in 2003

The Canadian lodging industry experienced a sharp and unexpected decline in 2003, impacted by both international geopolitical issues and unexpected events within the country. A weak U.S. economy, the war in Iraq, airline industry difficulties and most importantly, SARS, challenged Canada's position as a safe, accessible and high-value destination for international travellers and group business. As a result, the Canadian lodging industry experienced significant occupancy declines in all major markets.

SARS devastated Canadian tourism

Of all the factors impacting the industry in 2003, SARS was by far the most far-reaching and most damaging to our portfolio results. While confined to Toronto, SARS curtailed demand at many of our major Canadian city-centre hotels.

To make matters worse, the SARS concerns coincided with the peak booking window for our important summer leisure travel season. As a result, occupancies during the second and third quarters were significantly lower than expected.

Foreign exchange impact

Average Canadian dollar exchange rates relative to the U.S. dollar appreciated approximately 12% over 2002 and at the end of 2003, were approximately 22% higher than at the end of 2002.

The Canadian dollar appreciation can impact us in two ways:

- Operating results generated by our two U.S. properties will be negatively impacted given the lower conversion rate, and
- Although it is difficult to quantify, there is the potential for lower travel demand to Canada due to the increased prices for foreign travellers. As well, Canadians may be encouraged to travel outside the country given the higher value of the Canadian dollar.

2004 market outlook appears promising

On a positive note, it appears that the travel and tourism industry has turned the corner and is in the early stages of a recovery. Performance within the industry, both in Canada and in the U.S., improved considerably in the latter months of 2003, with portfolio-wide occupancy levels approaching 2002 levels. We expect this improvement to continue with occupancies in 2004 returning to levels realized in 2002.

This recovery in demand will be bolstered by limited new supply within our markets. Supply growth in Canada is forecasted to remain low in the next two years. Most development activity consists of limited-service properties located primarily in suburban areas of major markets. This supply is expected to have minimal impact on our operations. Given the location and competitive positioning of our portfolio, we are ideally positioned to benefit from the recovery in travel demand through higher occupancies.

OBJECTIVES

Our goal is to maximize the returns generated within the portfolio while minimizing the overall risk to our unitholders. Despite the recent challenges, our long-term objectives remain unchanged:

1. To provide stable distributions; and
2. To provide an appropriate risk-adjusted rate of return to unitholders.

STRATEGY FOR SUCCESS

We believe the following strategies will lead to the successful achievement of our long-term objectives:

Branding

We own a unique collection of world-class assets, many of which are irreplaceable heritage hotels in prime city-centre locations. Our branding strategy consists of using recognizable brands to maximize the positioning and performance of each property. With the exception of our one Sheraton branded property in Calgary, our assets are branded by Fairmont or Delta. Each brand's positioning within the luxury and first-class market segment and their strengths in attracting group and tour business make them appropriate brand choices for our assets.

Capital investment

As a long-term holder of hotel properties, regular capital investment in our assets is critical to maintain and improve their long-term performance. Annual upgrade capital reserves are typically established at 4% to 5% of annual revenues. Capital investment beyond the upgrade reserve is undertaken when the economic returns are justified. Typically, we require gross returns of 15% to 20% on these investments.

Portfolio growth

In a continuing effort to reduce our portfolio risk and volatility, we have further diversified our earnings through selective expansion in established city-centre markets in the United States.

Maintaining our relationship with Fairmont Hotels & Resorts Inc. ("FHR")

Our strategic alliance with FHR is founded on the fact that the interests of the Trust and FHR are aligned in certain areas and that cooperation in certain endeavours will be to both parties' mutual advantage.

- *Operating expertise:* As FHR is one of the largest hotel real estate owners and operators in North America, our Strategic Alliance with them provides us with access to a breadth of top-level management expertise. In addition, given its size and international presence, FHR provides us with broad access to market intelligence data.
- *Access to a large pool of qualified hotel operators:* FHR has been active in the hotel industry for more than a century with approximately 30,000 people currently employed by Fairmont and Delta. We benefit by having a large pool of qualified personnel to manage our assets.
- *Owner and manager interests are aligned:* FHR is our largest investor with an approximate 35% interest. Additionally, we are one of the largest owners of Fairmont and Delta managed hotels.
- *Right of first offer:* One of our growth tactics includes the opportunistic acquisition of luxury and first-class hotels. Our right of first offer for all of FHR's Canadian hotels and resorts provides us with a potential pipeline of acquisitions for some of the most desirable hotel real estate in North America.

STRATEGIES IN ACTION: 2003 ACHIEVEMENTS

Despite the disappointing financial performance this year, we completed a number of important achievements, which we believe better position our portfolio to maximize revenues and profitability going forward.

Focused on operating efficiencies

The year's challenges have resulted in a renewed focus on cost controls and the efficient deployment of our resources. We adapted our cost structure through the year to maximize margins while maintaining the service standards that are expected by our guests. We expect some of the initiatives to drive operating leverage in 2004 and beyond.

Condé Nast Traveler's 2004 Gold List

The Fairmont Olympic Hotel, Seattle
The Fairmont Empress
The Fairmont Hotel Vancouver
The Fairmont Waterfront
The Fairmont Hotel Macdonald
The Fairmont Royal York
Fairmont Château Laurier
Fairmont The Queen Elizabeth
Fairmont Le Château Frontenac

Representation on Condé Nast Traveler's Gold List

Our assets continue to be recognized as some of the premier hotels in the world. Despite the challenging environment in 2003, nine of our hotels were named to the 2004 *Condé Nast Traveler's* prestigious Gold List, which highlights the world's best places to stay as chosen by guests.

Completed major renovation projects

2003 marked the end of our major renovation program which culminated with the three-year renovation at Fairmont The Queen Elizabeth. With most properties now fully renovated, our properties are ideally positioned to benefit from the lodging recovery and generate returns on the capital invested.

Expanded in premier U.S. city-centre markets

Our portfolio is currently diversified across all major Canadian markets. Our acquisition parameters led to the recent expansion into the U.S. market with the acquisitions of The Fairmont Washington, D.C. in December 2002 and The Fairmont Olympic Hotel, Seattle in August 2003. Both properties are located in premier markets with stable and improving long-term prospects.

Successful re-branding of acquisitions

Our hotel additions in Washington, D.C. and Seattle recently joined Fairmont's international collection of hotels and resorts. Having successfully transitioned to the Fairmont brand, we expect this change will positively impact performance at both properties in 2004 and beyond.

2004 OUTLOOK

We believe the long-term outlook for Canada is promising with most of the reasons for the poor performance in 2003 considered to be from one-time shocks. We expect that the demand lost in 2003 will be recovered in 2004.

In addition to the widely anticipated economic rebounds in Canada and the U.S., there are a number of drivers that should lead to improvement in our 2004 performance:

- a substantial recovery from SARS will allow the Canadian tourism industry to recover from one of its most devastating years;
- following three years of significant capital investment in our portfolio, 2004 will be the first year with minimal disruption from renovations;
- the addition of two key properties in the U.S. should begin to enhance earnings; and finally,
- the recovery in demand will be helped by the low supply expectations, most notably within the luxury and first-class segments.

FINANCIAL PERFORMANCE

OPERATING OVERVIEW
(In millions of Canadian dollars, except per unit amounts)

	2003	2002	2001	2000	1999
Revenues	**$ 663.9**	$ 647.6	$ 606.8	$ 501.7	$ 441.9
Gross operating profit	**193.2**	219.6	204.2	174.5	152.4
GOP margin[1]	**29.1%**	33.9%	33.7%	34.8%	34.5%
Hotel EBITDA	**114.6**	146.0	140.2	121.7	106.8
Hotel EBITDA margin[2]	**17.3%**	22.5%	23.1%	24.3%	24.2%
Net income (loss)	**(8.4)**	55.1	53.7	62.9	58.7
Distributable income (loss)	**(2.0)**	50.9	63.9	67.3	59.8
Diluted net income (loss) per unit	**$ (0.21)**	$ 0.50	$ 0.66	$ 1.01	$ 0.99
Diluted distributable income (loss) per unit	**$ (0.02)**	$ 0.57	$ 0.77	$ 1.08	$ 1.01
Distributions per unit	**$ 0.185**	$ 0.74	$ 0.87	$ 0.98	$ 0.89
Total assets	**$ 1,994.7**	$ 1,909.2	$ 1,541.9	$ 1,137.0	$ 1,065.9
Total long-term debt	**829.2**	744.9	681.8	332.5	407.8

1. Gross operating profit as a percentage of revenues.

2. Hotel EBITDA as a percentage of revenues.

2003 vs 2002

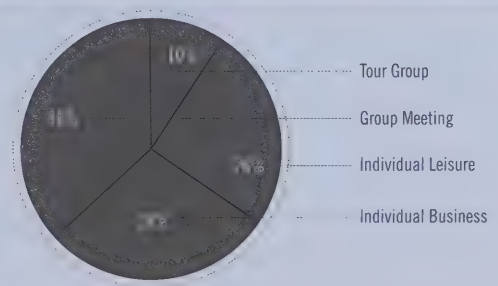
Recent acquisitions increase revenues

The $16.3 million revenue increase in 2003 was attributable to recent additions to our portfolio including the full period inclusion of Sheraton Suites Calgary Eau Claire (July 2002), The Fairmont Washington, D.C. (December 2002), and the partial period inclusion of The Fairmont Olympic Hotel, Seattle (August 2003). These additions contributed $89.3 million to revenues in 2003 (2002 – $14.2 million). The decrease in revenues through the balance of the portfolio is reflective of reduced travel volumes in most major Canadian cities primarily as a result of the impact of SARS.

Our portfolio revenues were particularly hurt by SARS since:

- we have a large exposure to the Toronto market, which typically contributes approximately 20% of our annual revenues;
- our Fairmont managed hotels attract a higher level of U.S and international guests, approximating 40% in 2002. U.S. and international visitation to our Canadian portfolio was down over 25% in 2003 as compared to 2002. These guests typically generate the highest rates and contribute significantly to our profits; and finally,
- given the size of our assets, we generate considerable group meeting and tour group business. The severity and speed with which SARS impacted business levels during the year made it impossible to replace the large amount of last-minute cancellations. At The Fairmont Royal York, group meeting and tour group business occupancy was down over 60,000 room nights or approximately 35% compared to the prior year. The majority of this decline was experienced during the second and third quarters.

CUSTOMER SEGMENTATION



Our portfolio is well diversified with strength in both the leisure and business markets as well as the group and individual segments. This balanced market mix helps minimize risk by limiting our reliance on any individual customer segment.

	2003	2002	Variance
Revenue per available room ("RevPAR")[1]	$ 105.88	–	–
Comparable Portfolio[2]			
Revenue per available room	$ 99.47	$ 112.84	(11.8%)
Average daily rate ("ADR")	$ 158.01	$ 164.26	(3.8%)
Occupancy	63.0%	68.7%	(5.7 points)
RevPAR – Fairmont	$ 110.13	$ 128.52	(14.3%)
RevPAR – Delta	$ 82.11	$ 87.26	(5.9%)

1. Based on hotel portfolio as at December 31, 2003.
2. Comparable hotels are considered to be properties that were owned by Legacy for at least the entire current and prior periods.
Exclusions: Sheraton Suites Calgary Eau Claire; The Fairmont Washington, D.C.; The Fairmont Olympic Hotel, Seattle

On a comparable basis, our portfolio experienced a 5.7 point decline in occupancy. The loss in revenues from lower occupancies was compounded by the decline in other revenue streams such as food, beverage and retail sales as fewer guests were using the facilities. Occupancy declines were experienced across all segments during the year. Group meeting and tour group business was particularly impacted given the difficulty in replacing this large base of business following the cancellations made as a result of SARS. Also, our tour group business is geared towards the second and third quarters, which coincided with the majority of the travel demand declines.

We also experienced a 3.8% decline in ADR in 2003 as a result of the following two factors:

1. Declines in occupancy lead to competitive pricing within markets as hotel operators lowered rates in an attempt to stimulate demand; and
2. The decline in U.S. and international guests, which typically generate higher room rates, resulted in a shift in business mix to lower paying customer segments.

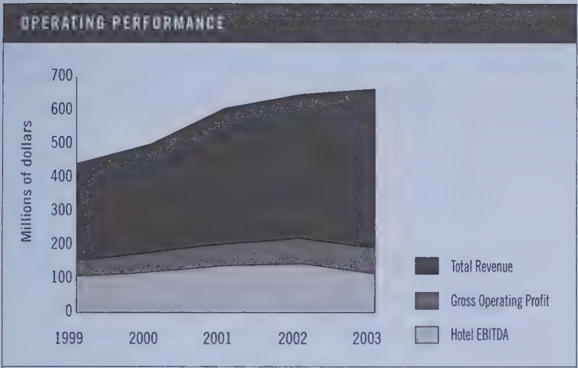
Two of our largest markets, Toronto and Quebec City, had particularly challenging years. The perceived health risks in Toronto immediately impacted the city's tourism industry as large groups cancelled previously scheduled meetings and travel health concerns hindered the city's ability to replace the lost business. At its lowest point, RevPAR at our three Toronto properties was down over 50% from the prior year.

Market demand in Toronto improved considerably through the year as we continue to distance ourselves from SARS concerns. For instance, during the fourth quarter, occupancy at The Fairmont Royal York had returned to prior year levels although room rate continues to be of concern as the market in general is using price as a stimulant to drive demand.

In Quebec City, SARS compounded the already fragile demand from U.S. and international guests given the weak U.S. economy and the war in Iraq. Fairmont Le Château Frontenac was particularly impacted given its high reliance on this clientele, which typically generates approximately 50% of its total demand. In 2003 room nights from U.S. and international visitors were down approximately 25% from 2002. While the signs are positive for a recovery in 2004, we remain cautious on the leisure segment and the strength of our international source markets.

Margins decline in tough environment

Gross operating profit margins were 29.1% in 2003 (2002 – 33.9%), a decline of 480 basis points. Similarly, EBITDA margin declined 520 basis points to 17.3% (2002 – 22.5%). The lodging industry has a high component of fixed costs such as labour, insurance and property taxes. Although reasonable measures were taken to control variable costs during the year, our ability to reduce expenses was adversely affected by the speed and severity with which the operating environment was impacted.



The decline in revenues at individual hotels had a profound impact on margins given the high level of fixed costs within the industry. We expect increased occupancies and revenues will result in improved operating margins in 2004.

Energy costs increased over 5% on a same-store basis in 2003. In an effort to control costs, our properties use energy efficient alternatives where possible, however, costs are subject to fluctuation based on the usage level and energy rates. Higher property value assessments resulted in increases in same-store property taxes of approximately 4% throughout the portfolio in 2003. Similarly, we have been in an environment of increasing insurance expenses since the terrorism attacks in 2001, although annual increases now appear to have returned to a more normal rate. We do not foresee any material changes to our cost structure in 2004.

Lower revenues coupled with higher year-over-year costs resulted in lower margins during the year. We expect increased demand trends will result in improved operating margins in 2004.

Amortization

Amortization increased $9.1 million to $45.2 million in 2003 as a result of recent acquisition activity and capital spending within the existing portfolio.

Interest expense, net

Interest expense of $71.0 million was up $22.4 million compared to 2002. Interest expense includes a charge of $9.8 million relating to the call premium on the redeemed unsecured debentures [See Liquidity and Capital Resources – Financing Activities]. The balance of the increase is a result of increased borrowings during the year and additional financing related to recent acquisitions.

Income tax expense (recovery)

Current income tax expense represents large corporation taxes payable by subsidiary companies. The future tax recovery of $7.8 million in 2003 (2002 – $4.3 million) represents recoveries generated by subsidiary corporations and will ultimately be passed on to unitholders through a reduction in the taxable portion of distributions.

Net income (loss)

The considerable decline in hotel EBITDA, coupled with increases in our cost structure, significantly impacted our profitability in 2003. Net loss for the year was $8.4 million (2002 – net income of $55.1 million) and diluted net loss per unit was $0.21 (2002 – diluted net income per unit of $0.50).

2003
(in millions of Canadian dollars, except per unit amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenues	$ 130.2	$ 165.8	$ 189.0	$ 178.9	$ 663.9
Hotel EBITDA	5.5	34.1	48.2	26.8	114.6
Net income (loss)	(21.4)	4.7	17.5	(9.2)	(8.4)
Distributable income (loss)	(17.3)	8.1	18.9	(11.8)	(2.0)
Basic and diluted net income (loss) per unit	(0.24)	0.01	0.14	(0.12)	(0.21)
Basic and diluted distributable income (loss) per unit	(0.17)	0.08	0.18	(0.11)	(0.02)
Distributions per unit	0.185	–	–	–	0.185

2002
(in millions of Canadian dollars, except per unit amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenues	$ 116.0	$ 177.2	$ 194.1	$ 160.3	$ 647.6
Hotel EBITDA	8.1	49.2	61.2	27.5	146.0
Net income (loss)	(15.6)	25.6	37.5	7.6	55.1
Distributable income (loss)	(13.0)	23.9	38.1	1.9	50.9
Basic net income (loss) per unit	(0.21)	0.27	0.40	0.04	0.50
Diluted net income (loss) per unit[1]	(0.21)	0.25	0.37	0.04	0.50
Basic distributable income (loss) per unit	(0.16)	0.28	0.45	0.02	0.57
Diluted distributable income (loss) per unit[1]	(0.16)	0.26	0.40	0.02	0.57
Distributions per unit	0.185	0.185	0.185	0.185	0.74

1. For the year ended December 31, 2002, debentures convertible into 17,142,857 units and their associated net income impact were excluded from the computation of diluted net income because their effect was not dilutive. When calculated on a quarterly basis, their impact was dilutive in the second and third quarters of 2002.

QUARTERLY FINANCIAL RESULTS

Due to the seasonal nature of our operations, results are not consistent throughout the year. Revenues are typically higher in the second and third quarters versus the first and fourth quarters in contrast to fixed costs such as amortization and interest, which are not significantly impacted by seasonal or short-term variations. The positive contribution from recent acquisitions was most notable in the first and fourth quarters of 2003 but was more than offset by considerable declines in occupancy through the balance of the portfolio in the second and third quarters due to SARS. As it is impossible to predict such events, we believe that quarter-to-quarter comparisons of results of past operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

LIQUIDITY AND CAPITAL RESOURCES EMPLOYED IN THE BUSINESS

We generally use cash from operations, debt facilities and equity financing to support operating requirements, to fund capital improvements, to fund distributions and to make acquisitions of hotels. Cash and cash equivalents on hand at December 31, 2003 totalled $19.3 million, a decrease of $26.9 million from 2002.

We have several sources of funding available to us as outlined below:

Cash from operations

Our operations typically generate cash flow that is used primarily to fund upgrade capital expenditures, debt service, distributions to unitholders and the cost of other profit-improving projects.

Lines of credit

We have available to us lines of credit with major banking institutions to finance temporary shortfalls in cash resulting from business seasonality and capital expenditures. Such credit facilities may also be used to provide short-term bridge financing in the event of an acquisition.

We have a $90.0 million secured credit facility, however, our ability to utilize the full amount may be restricted if certain financial covenants are not achieved. This credit facility is designed to provide financing for the operations and to provide short-term financing for acquisitions and other capital investments. As at December 31, 2003, we had $60.0 million drawn under our credit facility. This facility expires in December 2005. In addition, letters of credit amounting to $2.3 million were outstanding at December 31, 2003 against this facility.

Issuing additional equity securities

Our listing on the Toronto Stock Exchange, gives us the ability to raise, subject to market conditions, additional equity through the issuance of additional units or other equity instruments. When issued, additional equity is most often used to finance an acquisition or repay debt.

Issuing long-term debt

We also have the ability to raise funds by mortgaging our properties or by issuing either debt or hybrid-debt securities. We typically use long-term debt financing to refinance existing debt or to finance a significant acquisition. The choice of debt instrument used is dependent on current market conditions. The ability to secure debt financing at reasonable terms is ultimately dependent on market conditions and the lender's determination of our creditworthiness.

Contractual obligations

At December 31, 2003, Legacy's primary contractual obligations consisted of long-term mortgages. We intend on refinancing these amounts as they mature. With the exception of two floating rate mortgages, all other debt bears a fixed rate of interest. We have entered into an interest rate swap to fix the rate on one floating rate mortgage.

Operating leases consist primarily of rental commitments with respect to our leasehold interests in the Delta Calgary Airport, the Delta Halifax, the Delta Barrington, the Delta Beauséjour, the Delta Ottawa Hotel & Suites and The Fairmont Olympic Hotel, Seattle. Other obligations consist of contractual commitments in respect of certain capital projects.

CONTRACTUAL OBLIGATIONS
(in millions of Canadian dollars)

	Payments Due by Period				
	Total	< 1 Year	1–3 Years	4–5 Years	After 5 Years
Long-term debt	$ 829.2	$ 13.4	$ 56.4	$ 198.0	$ 561.4
Operating leases	55.4	9.8	16.8	11.4	17.4
Other obligations	3.9	3.9	–	–	–
Total	$ 888.5	$ 27.1	$ 73.2	$ 209.4	$ 578.8

We believe that our credit facilities, cash on hand and expected cash flow from operations, when combined with the potential to access debt and equity markets, will allow Legacy to finance all of its normal operating commitments. Our priority in 2004 is to restore the performance of Legacy's portfolio to its traditional levels with a goal of resuming distributions. Once achieved, we will continue to pursue our strategy of reducing risk through selective growth.

Operating activities

For the year ended December 31, 2003, cash flow generated from operations was $33.2 million (2002 – $90.6 million). The decrease in cash flow is primarily attributable to lower earnings as a result of the difficult operating environment in 2003. We continue to aggressively manage our accounts receivable balances and feel that our current levels of working capital are adequate to fund operations.

Investing activities

On August 1, 2003, we acquired a 37-year leasehold interest in The Fairmont Olympic Hotel, Seattle plus related furniture, fixtures and equipment. The hotel was acquired for a purchase price of $138.8 million plus $3.6 million in closing costs and the assumption of $2.0 million in working capital. The purchase price was satisfied by the assumption of an existing mortgage in the amount of US$44.0 million, the issuance of a US$20.0 million note, the use of a deposit in the amount of US$4.0 million made in November 2002 and the balance was paid in cash.

Capital expenditures during the year totalled $58.1 million (2002 – $50.4 million). Of this amount, approximately $28.7 million (2002 – $18.5 million) was spent on profit-enhancing projects. Capital reserves are established at 4% to 5% of total annual revenues per hotel based on hotel management agreements. Investments in excess of these reserves will be made if we deem the economic return appropriate.

Following the completion of several significant capital projects over the past three years, we anticipate investing approximately $45 million in our properties in 2004.

In 2003, expenditures on profit-enhancing projects included:

- The renovation of one floor of guestrooms and the addition of Fairmont Gold at The Fairmont Washington, D.C. The Fairmont Gold product commands a premium room rate and competes with the upper end of the luxury market from both a service and product perspective.
- The refurbishment of guestroom and corridors at Delta Ottawa Hotel & Suites.
- The completion of the third phase of a multi-phase renovation program at Fairmont The Queen Elizabeth. This phase involved the continuation of the convention floor renovations and upgrades to the lobby and additional guestrooms; and
- The refurbishment of guestrooms and corridors at Fairmont Château Laurier.

Financing activities

On December 15, 2003, we entered into a refinancing transaction consisting of mortgage financing and the repayment of unsecured debentures. We granted mortgages on seven of our properties with certain major Canadian financial institutions for aggregate gross proceeds of $335.0 million. The proceeds were used to repay the maturing amounts of Legacy's Series 2A and 3 debentures ($150.0 million) and Series 1C, 1D and 2B debentures ($162.0 million) that were called for redemption. The balance of the proceeds was used to fund the one-time $9.8 million call premium, other costs associated with the financing of $6.7 million and to repay other debt.

This debt refinancing transaction achieved three objectives:

- Extend our current debt maturities,
- Transition to a more traditional, cost effective and reliable source of long-term capital, and
- Reduce our future refinancing risk through the use of staggered maturity dates.

Our ability to refinance Legacy's debt structure in such a challenging operating environment demonstrates the quality and underlying value of our assets.

DISTRIBUTIONS TO UNITHOLDERS

Given our reduced earnings performance in 2003, distributions were suspended following the first quarter. Income distributed to unitholders of $0.185 per unit was $0.205 higher than distributable income as calculated under the Declaration of Trust. The 2003 distribution was financed primarily through cash on hand and our bank facilities.

Our intention is to resume distributions as soon as operating performance permits. When resumed, we expect to pay distributions below distributable income achieved by the Trust.

In 2003, the taxable portion of distributions was approximately 50%. The balance of the distribution is a return of capital thus reducing, for tax purposes, the adjusted cost base of a unit.

TRANSACTIONS WITH FAIRMONT HOTELS & RESORTS INC.

We have entered into several agreements with FHR through its subsidiaries Fairmont and Delta to manage our hotels and to provide us with strategic advice and day-to-day administrative services. All transactions with FHR are based on what is believed to be fair value and have been approved by the independant members of the Board of Trustees. A detailed listing of transactions with FHR is found in note 14 of the consolidated financial statements.

Advisory agreement

Fairmont provides operation and administrative services to us and advises our Trustees regarding major decisions. In return for these services, we pay an advisory fee equal to 0.4% of a defined asset base, an acquisition fee of 0.65% of the total acquisition price of any properties that we acquire and a disposition fee of 0.25% of the aggregate sale price of any properties sold. We do not pay any fees to FHR on acquisitions or dispositions between the two entities, such as the purchase of The Fairmont Empress and Fairmont Le Château Frontenac in 2001.

We are currently reviewing the advisory agreement and fee to ensure that it continues to meet Legacy's objectives.

The advisory agreement expires in February 2009. The agreement will be automatically renewed for additional terms of five years each, subject to the consent of FHR and the majority of the independent Trustees.

Management agreements

We have entered into various long-term management contracts with Fairmont and Delta to manage our hotels. Pursuant to these management agreements, we pay base and incentive management fees. Base management fees typically range from 2% to 3% of total hotel revenues and incentive management fees are calculated based on net operating income from hotel operations plus depreciation and amortization less capital replacement reserve, in excess of a threshold amount. The incentive fees for the 11 hotels initially acquired by us ("Initial Portfolio") are calculated based on both the profitability of each of the hotels as well as the overall profitability of the Initial Portfolio. The base and incentive fees paid to FHR are generally consistent with those negotiated by FHR with its other third party owners.

Fairmont and Delta also provide central reservations, sales and marketing, central procurement, accounting, management information, employee training and other services for us for which they are reimbursed on a cost recovery basis in accordance with the management agreements. This is consistent with hotel industry practice.

Strategic alliance agreement

We have entered into a strategic alliance agreement with FHR to co-operate in certain areas related to the purchase and sale of hotels, the development of new hotels that may be considered for investment by us and other areas related to the ownership and management of hotels. This agreement gives us the first opportunity to acquire any hotel or resort property in Canada that FHR owns or has the opportunity to acquire. We consider this a key alliance as it provides us with a pipeline of high-quality acquisition opportunities to which we may not otherwise be privy to.

Recent transactions with FHR

In August 2003, we entered into a long-term, incentive-based management contract for The Fairmont Olympic Hotel, Seattle with FHR. This transaction was recorded at the exchange value, which is the amount established and agreed to by the related parties. In connection with FHR securing the management contract on this property and a second contract under a similar agreement relating to The Fairmont Washington, D.C., FHR has agreed to pay us an aggregate amount of US$18.0 million over a three-year period. Legacy deferred the income recognition of this amount and is amortizing it over the lives of the management contracts. This amortization is being applied to reduce management fees expense.

In connection with the above transactions with FHR we entered into reciprocal loan agreements for US$86.6 million. These loan agreements mature in October 2008 and October 2013 and bear interest at normal commercial rates payable quarterly in arrears. In the event that either FHR or Legacy do not make the required interest or principal payments, the other party is not required to make its payment either. The loans meet all the requirements for a right of setoff and as such are presented on a net basis in the financial statements.

A subsidiary of FHR has a 25% participation in the first mortgage of The Fairmont Olympic Hotel, Seattle in the amount of US$11.0 million at the same rate as the lender. In addition, at December 31, 2003, Legacy has an amount owing to FHR of $11.4 million. This amount matures on July 31, 2004 and bears interest at the bankers' acceptance rate plus 2.75%.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are found in note 2 of the consolidated financial statements beginning on page 31. The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and contingencies. We base our estimates on historical experience and on other assumptions that are believed at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of our control. These estimates and assumptions are evaluated on a periodic basis. We believe the following critical accounting policies involve our more significant judgements and estimates used in the preparation of its consolidated financial statements.

Property and equipment

Due to the large proportion of property and equipment relative to total assets, the selections of the amortization method and length of amortization period, could have a material impact on operating results. The Trust amortizes its buildings using the sinking fund method, except for leasehold interests, which are amortized on a straight-line basis over the term of the lease. Under the sinking-fund method, the cost of a building is amortized over a maximum period of 40 years in a series of annual instalments increasing at a rate of 5%, compounded annually. Management feels that the sinking fund method is consistent with the industry standard as it is used by a majority of other real estate investment trusts. It is an appropriate measure of amortization given the nature of the underlying assets as well as the capital replacement reserve policy, which requires that approximately 4% to 5% of the respective hotel's annual revenues be directed towards its capital maintenance. Furniture, fixtures and equipment are amortized on a straight-line basis over the economic life of the asset.

In response to a recent change in GAAP, as of January 1, 2004, the sinking-fund method is no longer considered an acceptable accounting alternative. See Pending Accounting Policy Changes.

Valuation of long-lived assets

For each hotel, the net amount of its long-lived assets is reviewed regularly and compared to its net recoverable amount. An impairment in value will be recorded if the projected undiscounted future cash flows from the hotel exceed the net book value of the long-lived assets. Future cash flows are forecasted on a property specific basis based on historical results and recent trends or events that may impact a long-lived asset's future performance including new hotel supply, changes in travel patterns and general economic conditions. We feel that it is unlikely that any future impairment will be necessary given the quality and carrying value of the assets.

Goodwill

A goodwill impairment test is performed on an annual basis and in certain circumstances more frequently. These tests are based on a fair market value analysis of the various reporting units, which use such methods as undiscounted cash flow projections and peer comparisons of earnings multipliers. Based on our current operations and goodwill levels, management believes that it is highly unlikely that any future goodwill impairment will be required. However, in response to unanticipated changes in industry and market conditions, we may be required to consider restructuring, disposing or otherwise exiting certain operations, which could result in an impairment of goodwill.

Income taxes

Our corporate subsidiaries account for income taxes using the liability method. Under this method, future tax assets and liabilities are recognized based on differences between the bases of assets and liabilities used for financial statement and income tax purposes, using substantively enacted tax rates. Our subsidiaries have approximately $41.6 million in non-capital tax loss carry forwards. Ultimately, these losses will reduce the taxable portion of unitholder distributions. We have assumed that the subsidiaries will be able to use certain of their non-capital loss carry forwards prior to their expiration and have therefore recorded a net future tax asset for $6.3 million of such loss carry forward balances. In the event that future earnings do not meet our projections, it may be necessary to write down this amount.

CHANGES IN ACCOUNTING POLICIES

In 2003, we adopted several new standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These changes to our accounting policies are found in note 2 of the consolidated financial statements beginning on page 31.

Long-lived assets

Effective January 1, 2003, we adopted the new CICA recommendations with respect to accounting for the impairment of long-lived assets. This standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This standard is effective for fiscal years beginning on or after April 1, 2003 and is to be applied prospectively. Early adoption of this standard was permissible and we elected to early adopt. Adoption of this new standard did not have an impact on our financial position, results of operations, cash flows or on how we operate.

Also on January 1, 2003, we adopted the new accounting standards relating to the disposal of long-lived assets and discontinued operations. Subject to certain criteria, long-lived assets and any associated assets or liabilities that management expects to dispose of by sale will now be classified as held for sale. This standard is effective prospectively for disposal activities initiated on or after May 1, 2003 with early adoption encouraged. We elected to early adopt. Adoption of this new standard did not have an impact on our financial position, results of operations, cash flows or on how we operate.

PENDING ACCOUNTING POLICY CHANGES

The following are upcoming changes to GAAP that may have an impact on our financial statement presentation. Details on these and any other recent accounting changes can be found on the web site of the Accounting Standards Board of Canada at www.acsbcanada.org.

Unit options

Effective January 1, 2004, we will adopt the revised recommendations of the CICA with respect to stock-based compensation using the fair value based method of accounting for all options, with a resulting compensation expense being charged to operations.

Hedging relationships

In December 2001, the CICA issued guidance on accounting for hedging relationships. These guidelines specify the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting. This guideline is applicable to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. Early adoption is permissible, however, we will be implementing this guidance in 2004. The adoption of this accounting guidance will not have a material impact on either the presentation of our financial statements or on how we operate.

Generally accepted accounting principles and general standards of financial statement presentation

The CICA has issued new accounting standards surrounding GAAP and general standards of financial statement presentation. These standards lay out a framework for the application of GAAP and the fair presentation of financial standards in accordance with GAAP. This standard is effective for fiscal years beginning on or after October 1, 2003 and early adoption is permissible. As a result of these new guidelines, the sinking-fund method of amortization is no longer considered to be GAAP. Beginning January 1, 2004, the Trust will be amortizing its property and equipment on a straight-line basis over the estimated useful economic life. This change in accounting policy will be applied prospectively.

Disclosure and presentation of financial instruments

The CICA is currently in the process of amending requirements concerning the balance sheet presentation of financial instruments, or their components, as liabilities or equity. As part of this project, the CICA amended its disclosure requirements surrounding the presentation of financial instruments that may be settled in cash or by an issuer's own equity instruments, at the issuer's discretion, as liabilities. This amendment is effective for periods ending on or after November 1, 2004 with early adoption encouraged. We will be implementing this change starting in 2005. Upon adoption of this amendment, Legacy's 7.75% unsecured, subordinated, convertible debentures classified as equity in the amount of $147.3 million as at December 31, 2003, will need to be reclassified to liabilities on Legacy's consolidated balance sheets. This change, which Legacy anticipates making effective January 1, 2005, will be applied retroactively at that time.

NON-GAAP FINANCIAL MEASURES

Hotel EBITDA

Legacy considers income before interest, taxes, amortization, advisory fees and other income and expenses ("hotel EBITDA") to be a meaningful indicator of operations. Hotel EBITDA is a primary measure used to assess operating performance. It is likely that the Trust's calculation of hotel EBITDA is different than similar calculations used by other entities.

(in millions of Canadian dollars)	2003	2002
Hotel EBITDA	$ 114.6	$ 146.0
Deduct (add):		
Amortization of property and equipment	45.2	36.1
Advisory fees	8.2	7.2
Other expenses	5.4	2.8
Interest expense	71.0	48.6
Income tax expense (recovery)	(6.8)	(3.8)
Net income (loss)	$ (8.4)	$ 55.1

Distributable income

Distributable income is calculated as net income before amortization, income taxes and special charges less the capital replacement reserve. This amount, determined in accordance with the Declaration of Trust, is intended to approximate Legacy's taxable income and forms the basis of distributions to unitholders. Special charges and the capital replacement reserve are determined at the discretion of the Board of Trustees.

(in millions of Canadian dollars, except per unit amounts)	2003	2002
Net income (loss)	$ (8.4)	$ 55.1
Add (deduct):		
Amortization of property and equipment	45.2	36.1
Income tax expense (recovery)	(6.8)	(3.8)
Cash receipt on management contract, net	9.1	–
Gain on settlement of debentures	–	(0.1)
Distributions on convertible debentures	(11.6)	(10.2)
Land transfer tax refund	–	1.7
Taxable acquisition purchase price adjustment	–	1.1
Capital replacement reserve	(29.5)	(29.0)
Distributable income (loss)	$ (2.0)	$ 50.9
Add: Distributions on convertible debentures	–	–
Diluted distributable income (loss)	$ (2.0)	$ 50.9
Average units outstanding on distribution record dates (thousands)	89,360	74,305
Average exchangeable shares outstanding on distribution record dates (thousands)	14,700	14,700
Basic units outstanding (thousands)	104,060	89,005
Dilutive effect of unit options	13	75
Diluted units outstanding (thousands)	104,073	89,080
Basic distributable income (loss) per unit	$ (0.02)	$ 0.57
Diluted distributable income (loss) per unit	$ (0.02)	$ 0.57
Distributions declared per unit	$ 0.185	$ 0.74

- Amortization of property and equipment is replaced with the capital replacement reserve, which is prescribed under our various management agreements with Fairmont and Delta.
- The cash received from the awarding of management contracts [see Transactions with Fairmont Hotels & Resorts Inc.] are taxable and are therefore included in the calculation of distributable income. For accounting purposes, these amounts are deferred and amortized over the life of the respective management contracts. This amount is shown net of accounting amortization.
- Distributions on convertible debentures are deductible for tax purposes and are therefore deducted from distributable income.
- Other adjustments such as the taxable acquisition purchase price adjustment and the land transfer tax refund were included at the discretion of the Board of Trustees as they are included in taxable income.

FORWARD-LOOKING STATEMENT

This Annual Report contains certain forward-looking statements relating, but not limited to, Legacy's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate," "believe," "expect," "plan" or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking assumptions will not be achieved. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general global economic and business conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; and technological changes.

There is significant risk that our predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results to differ materially from our expectations. We disclaim any intention or obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts based on management's best estimates and careful judgement.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. To augment the internal control system, Legacy maintains a program of internal audits covering significant aspects of the operations and the internal audit department reports its findings and recommendations to management and the Audit Committee of the Board of Trustees.

The Board of Trustees carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members, the majority being Independent Trustees. The Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

Neil J. Labatte
President and Chief Executive Officer
Toronto, Ontario
January 27, 2004

Robert M. Putman
Vice President and Chief Financial Officer
Toronto, Ontario
January 27, 2004

AUDITORS' REPORT

To the Unitholders of Legacy Hotels Real Estate Investment Trust

We have audited the consolidated balance sheets of Legacy Hotels Real Estate Investment Trust ("Legacy") as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of Legacy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Legacy as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
January 27, 2004

CONSOLIDATED BALANCE SHEETS
As at December 31, 2003 and 2002 (in thousands of Canadian dollars)

	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,335	$ 46,224
Accounts receivable	46,630	41,446
Inventory	7,927	6,211
Prepaid expenses	6,837	5,014
	80,729	98,895
Property and equipment (note 4)	1,850,127	1,745,667
Goodwill (note 2)	35,425	35,425
Other assets	22,068	28,174
Future income taxes	6,340	1,083
	$ 1,994,689	$ 1,909,244
LIABILITIES		
Current liabilities		
Bank loans (note 5)	$ 59,873	$ –
Accounts payable and accrued liabilities	64,820	67,925
Accrued distributions on convertible debentures	2,946	2,946
Current portion of long-term debt (note 6)	13,368	157,295
Other (note 14)	11,488	132
	152,495	228,298
Long-term debt (note 6)	815,794	587,613
Other liabilities	26,658	22,012
Future income taxes (note 7)	35,330	38,495
	1,030,277	876,418
UNITHOLDERS' INTEREST (note 8)		
Units	795,682	795,682
Contributed surplus	49	49
Exchangeable shares	126,420	126,420
Convertible debentures	147,281	145,931
Foreign currency translation adjustments	(27,696)	2,246
Deficit	(77,324)	(37,502)
	964,412	1,032,826
	$ 1,994,689	$ 1,909,244
Commitments and contingencies (note 17)		

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Trustees

NEIL J. LABATTE
Trustee

BRYCE W. DOUGLAS
Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2003 and 2002 (in thousands of Canadian dollars, except per unit amounts)

	2003	2002
Revenues		
Room	$ 397,907	$ 402,177
Food and beverage	227,518	208,963
Other	38,517	36,489
	663,942	647,629
Operating expenses	470,764	428,048
Gross operating profit	193,178	219,581
Hotel management fees (note 13)	20,258	23,306
Property taxes, rent and insurance	58,338	50,250
Operating income from hotel operations before undernoted items	114,582	146,025
Other expenses		
Amortization of property and equipment	45,158	36,108
Advisory fees (note 13)	8,238	7,152
Other	5,357	2,812
Income before interest expense and income tax expense (recovery)	55,829	99,953
Interest expense, net (note 10)	71,020	48,599
Income (loss) before income tax expense (recovery)	(15,191)	51,354
Income tax expense (recovery) (note 7)		
Current	1,033	560
Future	(7,836)	(4,311)
	(6,803)	(3,751)
Net income (loss) for the year	$ (8,388)	$ 55,105
Basic net income (loss) per unit (note 11)	$ (0.21)	$ 0.50
Diluted net income (loss) per unit (note 11)	$ (0.21)	$ 0.50

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended December 31, 2003 and 2002 (in thousands of Canadian dollars)

	2003	2002
Deficit – beginning of year	$ (37,502)	$ (19,339)
Net income (loss) for the year	(8,388)	55,105
Distributions in the year	(16,533)	(53,777)
Dividends on exchangeable shares	(1,942)	(7,757)
Part VI.1 tax on exchangeable share dividends	(777)	(3,121)
Part VI.1 tax deduction	793	2,792
Accretion of convertible debenture issuance costs (note 8)	(1,350)	(1,181)
Distributions on convertible debentures (note 8)	(11,625)	(10,224)
Deficit – end of year	$ (77,324)	$ (37,502)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002 (in thousands of Canadian dollars)

	2003	2002
CASH PROVIDED BY (USED IN)		
Operating activities		
Net income (loss) for the year	$ (8,388)	$ 55,105
Items not affecting cash		
Amortization of property and equipment	45,158	36,108
Gain on settlement of debentures	–	(127)
Part VI.1 tax	(777)	(3,121)
Future income taxes	(7,836)	(4,311)
Other	5,093	2,422
Changes in non-cash working capital (note 12)	(83)	4,477
	33,167	90,553
Investing activities		
Acquisitions (note 3)	(50,013)	(219,991)
Land transfer tax refund	–	1,685
Additions to property and equipment	(58,105)	(50,397)
Proceeds from sale of property and equipment	162	151
Other assets	(9,049)	(6,741)
	(117,005)	(275,293)
Financing activities		
Distributions	(16,533)	(53,777)
Dividends on exchangeable shares	(1,942)	(7,757)
Distributions on convertible debentures	(11,625)	(7,278)
Net proceeds from unit issuance (note 8)	–	157,340
Net proceeds from bankers' acceptances	59,873	–
Net proceeds from affiliates	11,356	–
Net proceeds from convertible debentures	–	144,750
Net proceeds from new debentures issued	–	98,750
Repurchase of debentures for cancellation	(162,200)	(34,598)
Repayment of debentures	(150,000)	(78,075)
Net proceeds from mortgages	335,000	–
Mortgage payments	(7,577)	(5,201)
Other	(132)	(132)
	56,220	214,022
Translation adjustments	729	2,246
Increase (decrease) in cash during the year	(26,889)	31,528
Cash and cash equivalents – beginning of year	46,224	14,696
Cash and cash equivalents – end of year	$ 19,335	$ 46,224
Supplemental disclosure		
Income taxes paid	$ 2,416	$ 7,832
Interest paid	$ 57,669	$ 49,500

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002 (in thousands of Canadian dollars, except per unit amounts)

1. BASIS OF PRESENTATION

Legacy Hotels Real Estate Investment Trust ("Legacy"), is an unincorporated closed-end real estate investment trust created by a declaration of trust dated as of September 11, 1997, as amended to April 24, 2003 (the "Declaration of Trust"). Legacy commenced its operations on November 10, 1997 upon the completion of its initial public offering and a simultaneous offering of Series 1 Debentures. Upon the completion of these offerings, Legacy acquired interests in 11 first-class and luxury full-service business hotels (the "Initial Hotel Portfolio") from a subsidiary of Fairmont Hotels & Resorts Inc. ("FHR"). Legacy has since acquired interests in 13 additional hotel properties.

All of Legacy's properties are managed by subsidiaries of FHR under long-term management agreements. In addition, FHR provides operational and administrative services to Legacy under an advisory agreement. All transactions under such agreements between Legacy and FHR are detailed in note 13. FHR currently owns an approximate 35% interest in Legacy.

The operations of Legacy, including its strategy, investments and management, are subject to the general direction and control of its Trustees. A majority of the Trustees must be independent of Legacy and FHR or any of their affiliates.

The hotel portfolio consists of 24 hotels of which 22 are located in 14 Canadian cities throughout nine provinces. The two remaining hotels are located in Washington, D.C. and Seattle, Washington. The majority of the properties are owned by Legacy except for the Delta Calgary Airport, Delta Halifax, Delta Barrington, Delta Beauséjour, Delta Ottawa Hotel and Suites and The Fairmont Olympic Hotel, Seattle, in which Legacy holds long-term leasehold interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in all material respects and reflect the following policies:

Principles of consolidation

The consolidated financial statements include the results of operations of Legacy and its subsidiaries, all of which are wholly-owned by Legacy.

Foreign currency translation

Foreign currency assets and liabilities of Legacy's operations are translated at the rate of exchange in effect at the balance sheet dates for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Gains and losses resulting from the translation of assets and liabilities denominated in foreign currencies are included in income.

The accounts of self-sustaining subsidiaries, where the functional currency is other than the Canadian dollar, are translated using the period-end exchange rate for assets and liabilities and the average exchange rates in effect for the period for revenues and expenses. Exchange gains or losses arising from translation of such accounts are deferred and included under unitholders' interest as foreign currency translation adjustments.

Revenue recognition

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Cash and cash equivalents

Cash equivalents consist of short-term investments that are highly liquid and have initial terms to maturity of three months or less.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and replacement value.

Property and equipment

Property and equipment are recorded at cost. Legacy's policy is to capitalize major renewals and replacements and interest incurred during the renovation period of major renovations to existing facilities. Interest is capitalized based on the borrowing rate of debt for the project or if no specific financing is obtained, Legacy's average cost of borrowing. Maintenance, repairs and minor renewals and replacements are charged against income when incurred.

Amortization is provided at rates designed to write off the assets over their estimated economic lives, except for buildings on leased land, which are amortized over the lesser of the term of the lease, including options, and the economic life of the building.

The annual rates of amortization are as follows:

Buildings	20–40 years sinking-fund
Furniture, fixtures and equipment	5–17 years straight-line
Leasehold interests	over the term of the leases

Under the sinking-fund method, the cost of a building is amortized over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5%, compounded annually.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net identifiable assets acquired in a purchase business combination.

Effective January 1, 2002, Legacy no longer amortizes goodwill, but it is subject to impairment tests on at least an annual basis. Legacy performs such impairment tests on at least an annual basis and additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Any impairment loss would be expensed in the consolidated statements of income.

Long-lived assets

Effective January 1, 2003, Legacy adopted the new recommendations of The Canadian Institute of Chartered Accountants ("CICA") with respect to accounting for the impairment of long-lived assets. This standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent, when testing for and measuring impairment. Under the new standard, a two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition and are measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. Adoption of this new standard did not have an impact on Legacy's financial position, results of operations or cash flows.

Also effective January 1, 2003, Legacy adopted the new CICA recommendations relating to the disposal of long-lived assets. Subject to certain criteria, long-lived assets that management expects to dispose of by sale are classified as held for sale. The related results of operations from these properties classified as held for sale are reported in discontinued operations, if certain criteria are met, with reclassification of prior years' related operating results. Assets to be disposed of are reported at the lower of the carrying amount and fair value less costs to sell. Adoption of this new standard did not have an impact on Legacy's financial position, results of operations or cash flows.

Debt discount and other issuance expenses

Debt discount and other issuance expenses are included as other assets and amortized over the terms of the related debt.

Income taxes

Legacy is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all of the taxable income earned directly by Legacy in the year is distributable to unitholders and such distributions are deducted for income tax purposes. Consequently, no provision for income taxes under the liability method of accounting for income taxes is required for Legacy.

Legacy's subsidiaries also use the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively-enacted income tax rates and laws that are expected to be in effect in the years in which the future income tax assets or liabilities are expected to be settled or realized. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in the period that the change occurs. Valuation allowances are recorded when it is more likely than not that a future income tax asset will not be realized.

Financial instruments

Legacy may use derivative products from time to time to hedge its exposure to interest rate movements on underlying debt. Interest expense on the underlying debt is adjusted to include the payments made or received under the interest rate instruments.

At the inception of a hedge, Legacy documents the relationship between the hedging instruments and the hedged items. This process includes linking the derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Legacy assesses the effectiveness of the hedge at the inception and throughout the contract period by considering factors such as the term of the instrument, the notional settlement amount of the derivative as compared to the dollar amount of the item being hedged and any other applicable factors. At the end of each period, Legacy records any changes in fair value related to the portion of the derivative instruments that is no longer deemed to be effective or does not meet the criteria of a hedge in the consolidated statement of income.

Unit options

Legacy has not recognized compensation expense for unit options granted to officers, Trustees and employees in the consolidated statements of income as Legacy has quantified the amount to be insignificant based on the 7,500 options issued in the year. Any cash paid by the employee on the exercise of unit options is credited to unitholders' interest.

Effective January 1, 2004, Legacy will adopt the revised recommendations of the CICA with respect to stock-based compensation using the fair value based method of accounting for all options, with a resulting compensation expense being charged to operations.

Net income per unit

Net income per unit is calculated using the weighted-average number of units outstanding during the year. The dilutive effect on net income per unit resulting from the options outstanding under the unit option plan is calculated using the treasury stock method.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Comparative figures

Certain of the prior year's figures have been reclassified to conform with the presentation adopted in 2003.

Change in accounting policies

Long-lived assets

Effective January 1, 2003, Legacy adopted the new recommendations of the CICA with respect to accounting for the impairment of long-lived assets. This standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent, when testing for and measuring impairment. Under the new standard, a two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition and are measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. Adoption of this new standard did not have an impact on Legacy's financial position, results of operations or cash flows.

Also effective January 1, 2003, Legacy adopted the new CICA recommendations relating to the disposal of long-lived assets. Subject to certain criteria, long-lived assets that management expects to dispose of by sale are classified as held for sale. The related results of operations from these properties classified as held for sale are reported in discontinued operations, if certain criteria are met, with reclassification of prior years' related operating results. Assets to be disposed of are reported at the lower of the carrying amount and fair value less costs to sell. Adoption of this new standard did not have an impact on Legacy's financial position, results of operations or cash flows.

Goodwill

On January 1, 2002, Legacy adopted the new recommendations of the CICA with respect to goodwill and other intangible assets. Under the new recommendations, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment tests on at least an annual basis. Upon initial adoption of these recommendations, Legacy completed its impairment testing on the balance of goodwill and concluded that this asset was not impaired.

3. ACQUISITIONS

Legacy completed the following acquisition in 2003:

On August 1, 2003, Legacy acquired a leasehold interest in the building of the Olympic Hotel in Seattle, Washington plus related furniture, fixtures and equipment. The hotel was acquired for a purchase price of $138,800 plus $3,611 in closing costs and the assumption of $1,986 in working capital. The purchase was partially satisfied by the assumption of an existing mortgage in the amount of US$44,000, the issuance of a US$20,000 note and the use of a deposit in the amount of US$4,000 made in November 2002 and the balance was paid in cash. The purchase price equation has not yet been finalized. Following its acquisition, this hotel was renamed The Fairmont Olympic Hotel, Seattle.

The purchase price of this acquisition has been allocated to the identifiable assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The purchase price has been allocated as follows:

Working capital	$ 1,986
Building	127,143
Furniture, fixtures and equipment	15,268
Mortgage and long-term debt	(88,832)
	55,565
Deposit made in November 2002	(5,552)
	$ 50,013

The building is being amortized over the term of the lease.

Legacy completed the following acquisitions in 2002:

On December 4, 2002, Legacy acquired the assets of the Monarch Hotel in Washington, D.C. The hotel was acquired for a purchase price of $229,100 plus $7,017 in closing costs and the assumption of $751 in working capital. The purchase was partially satisfied by the assumption of existing debt in the amount of US$51,319 and the balance was paid in cash. On December 11, 2002, this hotel was renamed The Fairmont Washington, D.C.

On July 12, 2002, Legacy finalized the acquisition of the Sheraton Suites Calgary Eau Claire in Calgary, Alberta. The hotel was purchased with cash for an aggregate purchase price of $65,000 plus $950 in closing costs less the assumption of a $633 working capital deficit. Legacy was entitled to receive an amount from the vendor based on the net income from the Sheraton Suites Calgary Eau Claire for the period from June 1, 2002 to July 12, 2002 less interest on the cash portion of the purchase price. During this period, Legacy earned a net amount of $1,110. This amount is taxable and therefore was included in distributable income. Under GAAP, however, this amount was treated as an adjustment to the purchase price.

The purchase price of each of the 2002 acquisitions has been allocated to the identifiable assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The purchase prices have been allocated as follows:

	The Fairmont Washington, D.C.	Sheraton Suites Calgary Eau Claire
Working capital (deficit)	$ 751	$ (633)
Land	48,873	6,981
Buildings	173,501	51,859
Furniture, fixtures and equipment	13,743	6,000
Mortgage and long-term debt	(81,084)	–
	$ 155,784	$ 64,207

4. PROPERTY AND EQUIPMENT

	2003			2002		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	$ 183,400	$ –	$ 183,400	$ 192,061	$ –	$ 192,061
Buildings	1,561,694	63,659	1,498,035	1,443,151	48,198	1,394,953
Furniture, fixtures and equipment	249,998	98,248	151,750	212,815	71,832	140,983
Leasehold interests	24,766	7,824	16,942	22,674	5,004	17,670
	$ 2,019,858	$ 169,731	$ 1,850,127	$ 1,870,701	$ 125,034	$ 1,745,667

5. BANK LOANS

Legacy has a secured, revolving operating credit facility totalling $90,000 designed to provide financing for operations, acquisitions and other capital investments. The credit facility is secured by eight of Legacy's properties. As at December 31, 2003, bank loans of approximately $60,000 were drawn on this facility. In addition to the bank loans, letters of credit amounting to $2,340 were outstanding at December 31, 2003 against this facility. At December 31, 2002, LHC had a $30,000 revolving operating credit facility designed to provide financing for the operations and Legacy had a $100,000 revolving acquisition credit facility designed to provide financing for acquisitions and other capital investments. These credit facilities were unsecured.

6. LONG-TERM DEBT

	2003	2002
6.34%, Series 1C Debentures, due November 2004	$ –	$ 70,000
7.08%, Series 1D Debentures, due June 2008	–	45,000
6.30%, Series 2A Debentures, due December 2003	–	50,000
6.65%, Series 2B Debentures, due December 2005	–	47,200
Floating rate, Series 3 Debentures, due December 15, 2003	–	100,000
7.96%, mortgage payable, due November 2011	157,747	160,125
8.54%, mortgage payable, due March 2011	106,952	108,533
7.86%, mortgage payable, due March 2011	74,862	76,081
11.00%, mortgage payable, due March 2010	6,798	7,038
6.84%, mortgage payable, due October 2008	61,100	74,260
6.84%, mezzanine loan, due May 2006	3,991	6,671
7.64%, mortgage payable, due February 2013	74,700	–
7.68%, mortgage payable, due June 2012	18,700	–
7.05%, mortgage payable, due February 2009	59,700	–
7.16%, mortgage payable, due February 2008	18,900	–
8.04%, mortgage payable, due February 2014	17,000	–
7.58%, mortgage payable, due March 2010	41,798	–
7.58%, mortgage payable, due March 2010	13,202	–
Floating rate, mortgage payable, due July 2006	56,712	–
Floating rate, mortgage payable, due February 2007	91,000	–
8.50% mezzanine loan, due February 2005	26,000	–
	829,162	744,908
Less: Current portion of long-term debt	13,368	157,295
	$ 815,794	$ 587,613

Long-term debt is payable over the next five years and thereafter as follows:

2004	$ 13,368
2005	40,688
2006	15,703
2007	107,799
2008	90,222
Thereafter	561,382
	$ 829,162

Debentures

On December 15, 2003, Legacy closed a refinancing transaction consisting of mortgages for aggregate gross proceeds of $335,000, bank financing and repayment of debentures. The proceeds were used to repay the maturing face amounts of Legacy's Series 2A and 3 Debentures and the redemption price of its Series 1C, 1D and 2B Debentures that had been called for redemption. A one-time call premium charge of $9,754 has been included in net interest expense for 2003. The costs associated with the financing amounted to $6,742 and are being amortized over the terms of the mortgages.

As at December 31, 2002, the unsecured Series 1 and Series 2 Debentures had a weighted-average annual interest rate of 6.63% and 6.47%, respectively. Interest was payable semi-annually in arrears. The unsecured Series 3 Debentures had interest at a floating rate equal to the bankers' acceptance rate plus 275 basis points, subject to certain adjustments, payable monthly in arrears.

Mortgages payable

As part of the December 15, 2003 refinancing transaction, Legacy has entered into seven mortgage financings with certain Canadian financial institutions for aggregate gross proceeds of $335,000. Legacy granted mortgages on seven of its properties – The Fairmont Waterfront, The Fairmont Hotel Macdonald, Delta Toronto East, Fairmont Château Laurier, Fairmont The Queen Elizabeth, Delta Centre-Ville and Delta Halifax. With the exception of Fairmont The Queen Elizabeth, the terms of the mortgages vary from four to ten years and carry varying rates of interest ranging from 7.05% to 8.04%. The mortgage secured by Fairmont The Queen Elizabeth matures February 1, 2007 and bears interest at bankers' acceptances plus 309 basis points. Legacy has entered into an interest rate contract to cap the combined rate on this mortgage at 11.0%.

Mortgages payable are also secured by the assets of The Fairmont Royal York, Fairmont Le Château Frontenac, The Fairmont Empress, Delta Centre-Ville, The Fairmont Washington, D.C. and The Fairmont Olympic Hotel, Seattle. Interest is compounded semi-annually and payable monthly, except for the mortgages payable and the mezzanine loans secured by The Fairmont Washington, D.C. and The Fairmont Olympic Hotel, Seattle which are denominated in US dollars with interest compounded monthly on a 360-day basis and payable monthly. Subsequent to December 31, 2003, Legacy made a US$10,100 deposit under the terms of an existing mortgage.

As at December 31, 2003, $147,803 (2002 – $80,931) of this debt was denominated in US dollars.

Declaration of Trust

The Declaration of Trust provides that Legacy shall not incur or assume any indebtedness if, after giving effect to the incurrence or assumption of such indebtedness, the total indebtedness of Legacy on a consolidated basis would exceed 50% of a defined asset base. The Declaration of Trust also provides that at no time shall indebtedness (other than trade payables, accrued expenses and distributions payable) aggregating more than 15% of the asset base be at floating interest rates or have maturities of less than one year, not including that portion of long-term debt falling due in the next 12 months.

7. INCOME TAXES

Legacy's corporate subsidiaries account for income taxes under the liability method as described in note 2. These companies were subject to tax on taxable income in 2003 at an effective income tax rate of approximately 37%. Current taxes consist mainly of the large corporations tax expense. To the extent that any Part VI.1 taxes are paid, a deduction in determining taxable income equal to 9/4 of the Part VI.1 taxes is available.

As at December 31, 2003, Legacy's subsidiary corporations had approximately $41,600 of non-capital losses available to reduce future taxable income through 2017. Valuation allowances totalling $7,000 have been recorded against future tax assets of $13,340 in respect of these losses.

8. UNITHOLDERS' INTEREST

Units	2003		2002	
	Number of units (thousands)		Number of units (thousands)	
Outstanding – beginning of year	**89,360**	**$ 795,682**	68,484	$ 638,342
Issued for cash				
Equity offering	–	–	19,500	145,646
Dividend reinvestment plan	–	–	670	5,722
Exercise of options	–	–	15	108
Other	–	–	691	5,864
Outstanding – end of year	**89,360**	**$ 795,682**	89,360	$ 795,682

On November 1, 2002, Legacy issued 19,500,000 units, of which approximately 13,000,000 units were sold to the public and approximately 6,500,000 units were issued to a wholly-owned subsidiary of FHR. In 2002, Legacy issued 691,438 units to a subsidiary of FHR through three private placements for proceeds of $5,864.

Each unit represents a unitholder's proportionate undivided beneficial interest in Legacy and confers the right to one vote at any meeting of unitholders and to participate pro rata in any distributions by Legacy and, in the event of termination of Legacy, in the net assets of Legacy remaining after satisfaction of all liabilities.

Legacy has a distribution reinvestment plan, which permits participants to acquire additional units of Legacy by reinvesting cash distributions paid on units they hold.

Exchangeable shares

The exchangeable shares are entitled to a per share dividend equal to the ordinary unit distribution, less Part VI.1 taxes payable by a subsidiary as a result of paying these dividends. Each exchangeable share is retractable at the fair market value of a Legacy unit after a minimum holding period of five years. The exchangeable shares are tied to voting certificates issued by Legacy that are entitled to one vote per voting certificate at meetings of unitholders.

Convertible debentures

On February 14, 2002, Legacy issued $150,000 in principal amount of 7.75% unsecured, subordinated, convertible debentures maturing on April 1, 2007 (the "Convertible Debentures"). The Convertible Debentures may be converted into Legacy units at the option of the holder at any time prior to maturity at a conversion price of $8.75 per Legacy unit, subject to certain adjustments in accordance with the terms of the Trust Indenture governing the terms of the Convertible Debentures. The Convertible Debentures may not be redeemed by Legacy prior to April 1, 2004. Thereafter, the Convertible Debentures may be redeemed by Legacy, in whole at any time or in part from time to time, on at least 30 days' notice at a redemption price equal to par plus accrued and unpaid interest, provided that the current market price is at least 115% of the then current conversion price. The term "current market price" is defined to mean the weighted-average trading price of Legacy units on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date of the applicable event.

Legacy may elect to pay interest and principal upon maturity or redemption by issuing units to a trustee in the case of interest payments and to the Convertible Debenture holders in the case of payment of principal. The number of units to be issued upon redemption will be determined by dividing the principal amount of the Convertible Debentures by 95% of the current market price of the units on the date fixed for redemption or the maturity date.

The Convertible Debentures are classified as equity on the consolidated balance sheets since Legacy may elect to satisfy the interest and principal obligations through the issuance of Legacy units. Similarly, interest payments and issuance costs are charged directly to retained earnings. Legacy paid issuance costs totalling $5,250 in connection with this offering.

9. UNIT OPTION PLAN

Under Legacy's unit option plan, options may be granted to certain key employees, Trustees and employees and directors of its affiliates to purchase units of Legacy at a price not less than the market value of the units at the grant date. As at December 31, 2003, pursuant to the plan, there were 4,722,224 (2002 – 4,714,724) options to acquire units outstanding. These options expire ten years after the grant date, from November 2007 to September 2013. Options vest at the rate of 50% after two years and the balance one year thereafter. The maximum number of units reserved for issuance under the plan is 5,924,449. 7,500 new options were issued during 2003 (2002 – nil).

	2003		2002	
	Number of units (thousands)	Weighted-average exercise price	Number of units (thousands)	Weighted-average exercise price
Outstanding – beginning of year	4,715	$ 9.31	4,730	$ 9.30
Granted	7	6.06	–	–
Exercised	–	–	(15)	7.23
Cancelled	–	–	–	–
Outstanding – end of year	4,722	$ 9.31	4,715	$ 9.31
Exercisable – end of year	4,688	$ 9.32	4,418	$ 9.36

Information relating to unit options outstanding as at December 31, 2003 is as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding (thousands)	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable (thousands)	Weighted-average exercise price
\$5.65 – \$6.75	307	5.1	$ 6.13	296	$ 6.13
\$8.00 – \$8.90	903	6.4	8.46	880	8.45
\$9.80 – \$9.95	3,512	3.9	9.80	3,512	9.80
	4,722	4.4	$ 9.31	4,688	$ 9.32

10. INTEREST EXPENSE

	2003	2002
Interest on debentures	$ 18,926	$ 19,401
Mortgage interest	35,950	28,888
Bank loans	6,999	2,617
Call premium charge	9,754	–
	71,629	50,906
Less		
Gain on settlement of debentures	–	127
Capitalized interest	224	123
Interest income	385	2,057
	609	2,307
	$ 71,020	$ 48,599

11. NET INCOME (LOSS) PER UNIT

Net income (loss) per unit is based on the net income (loss) available to unitholders divided by the weighted-average number of units and exchangeable shares outstanding during the year.

	2003	2002
Net income (loss)	$ (8,388)	$ 55,105
Part VI.1 tax, net of deduction	16	(329)
Accretion of convertible debenture issuance costs	(1,350)	(1,181)
Distributions on convertible debentures	(11,625)	(10,224)
Net income (loss) available to unitholders	$ (21,347)	$ 43,371

(in thousands)	2003	2002
Weighted-average number of units outstanding	89,360	72,518
Weighted-average number of exchangeable shares outstanding	14,700	14,700
	104,060	87,218
Dilutive effect of unit options	13	75
Diluted weighted-average number of units	104,073	87,293

For the year ended December 31, 2003, debentures convertible into 17,142,857 units (2002 – 17,142,857) and the associated net income (loss) impact were excluded from the computation of diluted net income (loss) per unit because their effect was not dilutive.

12. CHANGES IN NON-CASH WORKING CAPITAL

Details of changes in non-cash working capital are:

	2003	2002
Decrease in accounts receivable	$ 5,263	$ 5,237
Increase in inventory	(148)	(863)
Increase in prepaid expenses	(1,875)	(1,579)
Increase (decrease) in accounts payable and accrued liabilities	(3,323)	1,682
	$ (83)	$ 4,477

13. AGREEMENTS

Management agreements

Legacy entered into long-term management agreements in November 1997 with Canadian Pacific Hotels Management Corporation ("CPHMC"), a subsidiary of FHR, to manage the Initial Hotel Portfolio, with an initial term of 50 years and one renewal period of 25 years, exercisable at the option of CPHMC. In July 2002, Legacy also entered into a long-term management agreement with CPHMC to manage the Sheraton Suites Calgary Eau Claire.

Delta Hotels Limited ("Delta"), a subsidiary of FHR, provides management services to CPHMC for four of the hotels in the Initial Hotel Portfolio and three other Delta branded hotels. Delta also provides management services for four other properties under separate management agreements.

Fairmont Hotels Inc. ("Fairmont"), a subsidiary of FHR, provides management services to CPHMC for the remaining seven hotels in the Initial Hotel Portfolio and the Sheraton Suites Calgary Eau Claire. In addition, Fairmont provides management services to five other Legacy properties under separate management agreements.

Pursuant to these management agreements, CPHMC, Fairmont and Delta are entitled to a base management fee and an incentive management fee. The base management fee ranges from 2% to 3% of total hotel revenues. For the hotels included in the Initial Hotel Portfolio, the incentive fee is based on both the profitability of each of the hotels and the overall profitability of the Initial Hotel Portfolio. The incentive fee is calculated

based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold amount. In the event that the overall profitability does not exceed that target, the aggregate incentive fee determined on the profitability of each hotel that would otherwise be payable may be deferred. Such deferred incentive fee may become payable in a future year. For the 13 hotels acquired after the Initial Hotel Portfolio, the incentive fee is based on the profitability of each hotel and is calculated on a basis similar to the incentive fee calculation for the Initial Hotel Portfolio.

The management agreements for The Fairmont Washington, D.C. and The Fairmont Olympic Hotel, Seattle include a provision for an additional special incentive fee. Under the terms of these agreements, the hotels are required to pay, in the first three years of the agreement, an amount by which net operating income exceeds a specified threshold. No amounts for special incentive fees have been payable for the year ended December 31, 2003.

Advisory agreement

Legacy entered into an Advisory Agreement in November 1997 with CPHMC to provide operation and administrative services to Legacy and to advise the Trustees regarding major decisions. The initial term was extended to 11 years and will be automatically renewed for additional terms of five years each, subject to the consent of CPHMC and the majority of the independent Trustees. This agreement was assigned to Fairmont in 1999, and expires in February 2009.

Fairmont is entitled to the following fees:

- an advisory fee equal to 0.40% of the asset base as defined;
- an acquisition fee of 0.65% of the total acquisition price of any additional property acquired by Legacy other than purchased from a related party; and
- a disposition fee of 0.25% of the aggregate sale price of any property sold by Legacy, other than to a related party.

Strategic alliance agreement

Legacy and FHR entered into a Strategic Alliance Agreement in 1997 to co-operate in certain areas related to the purchase and sale of hotels, the development of new hotels that may be considered for investment by Legacy and other areas related to the ownership and management of hotels.

14. RELATED PARTY TRANSACTIONS

Amounts payable to CPHMC, Fairmont and Delta during the year were as follows:

	2003	2002
Management fees	$ 20,258	$ 23,306
Advisory fees	8,238	7,152
Acquisition fees	902	1,365
	$ 29,398	$ 31,823

CPHMC, Fairmont and Delta provide central reservations, sales and marketing, central purchasing, accounting, management information, employee training and other services for which they are reimbursed on a cost recovery basis in accordance with management agreements. In 2003, the total amount charged from CPHMC, Fairmont and Delta was $23,940 (2002 – $20,828). Included in accounts payable as at December 31, 2003, is $4,079 (2002 – $5,452) owing to Fairmont and Delta.

In August 2003 and December 2002, Legacy entered into long-term, incentive-based management contracts for The Fairmont Olympic Hotel, Seattle and The Fairmont Washington, D.C. respectively with FHR. In connection with Fairmont securing the management contract on these properties, Fairmont has agreed to pay an aggregate amount of US$18,000 to Legacy over a three-year period. Legacy deferred the income recognition of this amount and is amortizing it over the lives of the management contracts. This amortization is being applied to reduce management fees expense. At December 31, 2003, Legacy has a receivable from FHR of US$11,000 in connection with various management contracts with FHR.

In connection with the above transactions, Legacy and FHR entered into reciprocal loan agreements for US$86,600. The loans mature in October 2008 and October 2013 and bear interest at normal commercial rates payable quarterly in arrears. In the event that either Legacy or FHR does not make its required interest or principal payments, the other party is not required to make its payment either. If such payment has already been made, it must be returned. The loans meet all the requirements for a right of setoff and, as such, are presented on a net basis in the financial statements.

A subsidiary of FHR has a 25% participation amounting to US$10,906 in Legacy's first mortgage on The Fairmont Olympic Hotel, Seattle at the same rate as the lender. In addition, at December 31, 2003, Legacy has an amount owing to FHR of $11,356, which has been classified as other under current liabilities. This amount matures on July 31, 2004 and bears interest at the bankers' acceptance rate plus 2.75%.

All transactions were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other related party transactions are disclosed in note 15.

15. EMPLOYEE FUTURE BENEFITS

Certain employees of subsidiaries of Legacy belong to defined contribution plans. Pension costs under these plans equal contributions made during the year. As well, certain employees of subsidiaries participate in various defined benefit plans of FHR. Legacy pays its share of the contributions to FHR. As these contributions are not materially different from the expense, the contributions are expensed as incurred. As at December 31, 2003, Legacy had a future employee benefit liability of $2,411 (2002 – $2,378) relating to its portion of a supplemental pension plan. This amount is unfunded and guaranteed through a letter of credit advanced by FHR. In 2003, pension expense totalled $4,953 (2002 – $4,632).

Legacy also provides other post-retirement benefits; primarily life insurance and health care coverage, for certain employees. The costs of these other post-retirement benefits are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs. The projected benefit obligation is discounted using a market interest rate at the end of the year on high-quality corporate debt instruments. Actuarial gains and losses and the initial transition obligation as of January 1, 2000 are amortized on a straight-line basis over the expected average remaining service lives of employees. The Trust uses a measurement date of December 31 for its other post-retirement benefits.

Other post-retirement benefit obligations

Change in benefit obligation	2003	2002
Benefit obligation – January 1	$ –	$ –
Service cost	64	–
Interest cost	249	–
Actuarial loss	187	–
Benefits paid	(218)	–
Other	3,883	–
Benefit obligation – December 31	$ 4,165	$ –

The weighted-average discount rate used to determine the benefit obligations at December 31, 2003 was 6.0% (2002 – 6.5%).

A 14% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003 and 10% for 2004. The rate was assumed to decrease gradually to 5% by 2009 and remain at that level thereafter.

Funded status

All plans for other post-retirement benefits are unfunded. The funded status of other post-retirement benefit obligations, reconciled to the amounts reported on the consolidated balance sheets as at December 31, is as follows:

	2003	2002
Fair value of plan assets	$ –	$ –
Benefit obligation	(4,165)	–
Underfunded status	(4,165)	–
Unamortized net actuarial loss	187	–
Unamortized net transitional asset	2,897	–
Accrued benefit liability	$ (1,081)	$ –

The accrued benefit liability related to other post-retirement benefits is classified as a non-current other liability.

Net periodic cost

	2003	2002
Service cost	$ 64	$ –
Interest cost	249	–
Net amortization and deferrals	206	–
Other	780	–
	$ 1,299	$ –

Employer contributions in 2003 for these other post-retirement plans totalled $218.

16. FINANCIAL INSTRUMENTS

Fair value

The fair values of accounts receivable, accounts payable and accrued liabilities and amounts due to FHR approximate their carrying values, due to the relatively short periods to maturity of these instruments.

The fair market values of the debentures, mortgages and mezzanine loans are as follows:

	2003	2002
Series 1C Debentures	$ –	$ 70,600
Series 1D Debentures	–	43,865
Series 2A Debentures	–	50,530
Series 2B Debentures	–	47,750
Series 3 Debentures	–	100,000
7.96%, mortgage payable	**164,205**	169,688
8.54%, mortgage payable	**115,193**	118,291
7.86%, mortgage payable	**77,982**	80,434
11.00%, mortgage payable	**7,830**	8,491
6.84%, mortgage payable	**61,669**	77,894
6.84%, mezzanine loan	**4,047**	6,886
7.64%, mortgage payable	**74,700**	–
7.68%, mortgage payable	**18,700**	–
7.05%, mortgage payable	**59,700**	–
7.16%, mortgage payable	**18,900**	–
8.04%, mortgage payable	**17,000**	–
7.58%, mortgages payable	**55,000**	–
Floating rate mortgage payable	**56,712**	–
Floating rate mortgage payable	**91,000**	–
8.50%, mezzanine loan	**26,000**	–

Legacy has determined the estimated fair value of its long-term debt based on rates currently available to Legacy for long-term borrowings with similar terms and conditions.

Interest rate risk management

With the exception of the two floating rate mortgages, all long-term debt as at December 31, 2003 bears a fixed rate of interest. Legacy has entered into an interest rate swap to fix the rate on the $56,712 floating rate mortgage at 4.00% until June 2004 and 6.20% from July 2004 until maturity.

Credit risk management

Credit risk relates to cash, short-term investments and account receivable balances, and results from the possibility that a counterparty defaults on its contractual obligation to Legacy. This risk is minimized since Legacy deals with banks having an appropriate credit rating and performs ongoing credit evaluations of customers and maintains allowances for potential credit losses.

17. COMMITMENTS AND CONTINGENCIES

Minimum rentals for hotel and equipment leases are as follows:

2004	$ 9,772
2005	8,700
2006	8,142
2007	7,580
2008	3,806
Thereafter	17,377
	$ 55,377

Certain land and building leases are subject to additional rent based on a percentage of operating revenues. In accordance with hotel management agreements, the managers are entitled to withhold 4% to 5% of annual operating revenues as a capital replacement reserve to finance ongoing capital expenditures at the properties. Contractual commitments in respect of certain 2003 capital projects totalled $3,863 as at December 31, 2003.

18. SEGMENTED INFORMATION

Management views operations of the hotels held by Legacy as one operating segment. As a result, the consolidated financial statements are presented as one reportable segment with revenues disclosed separately for rooms, food and beverage and other, which consists primarily of incidentals.

Revenues and assets are allocated to countries based upon the hotels' geographic locations.

Geographical information

Revenues	2003	2002
Canada	**$ 599,460**	$ 645,032
United States	**64,482**	2,597
	$ 663,942	$ 647,629

Property and equipment and goodwill – net	2003	2002
Canada	**$ 1,556,040**	$ 1,545,176
United States	**329,512**	235,916
	$ 1,885,552	$ 1,781,092

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STOCK EXCHANGE LISTING
Toronto Stock Exchange
Trading Symbol: LGY.UN
Convertible Debentures: LGY.DB
Units Outstanding
at December 31, 2003:
89,360,094 units

AUDITORS
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FRENCH REPORTS
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Quarterly earnings conference calls are broadcast live through our website and archived for three months. Presentations at investor conferences are also promptly made available on our website.

ANNUAL MEETING
10:00 a.m. Eastern Time
Thursday, April 22, 2004
The Fairmont Royal York
Imperial Room
100 Front Street West
Toronto, Ontario, Canada

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DISTRIBUTION REINVESTMENT PLAN
Unitholders may acquire units through reinvesting cash distributions without paying brokerage commissions. Unitholders who hold Units of record or beneficial holders (those who hold their Units through a broker or other investment dealer recognized by the Canadian Depository for Securities Ltd.) may request enrolment in the Plan through such broker or investment dealer. An information circular providing the details of the Plan may be obtained from the transfer agent or from Investor Relations.

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